



CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

April 3, 2000

H.R. 3843 **Small Business Reauthorization Act of 2000**

As passed by the House of Representatives on March 15, 2000

SUMMARY

The act would authorize appropriations for fiscal years 2001 through 2003 for the Small Business Administration (SBA). Assuming appropriation of the necessary amounts, CBO estimates that enacting this legislation would result in new discretionary spending of about \$3.5 billion over the 2001-2005 period. Of this total, \$537 million is from amounts specifically authorized in H.R. 3843 for SBA programs—primarily for administrative expenses. The remaining \$3 billion is CBO's estimate of the subsidy costs of continuing SBA loan programs over the next three years.

The act would not affect direct spending or receipts; therefore, pay-as-you-go procedures would not apply. The legislation contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA) and would impose no costs on state, local, or tribal governments.

DESCRIPTION OF THE ACT'S MAJOR PROVISIONS

Section 2 would establish maximum levels for small business loans to be made by the SBA in 2001, 2002, and 2003. It also would authorize appropriations for the Service Corps of Retired Executives (SCORE) and technical assistance grants to microloan recipients. Section 2 would authorize such sums as may be necessary for the disaster loan program, and for administrative expenses necessary to carry out the Small Business Act and the Small Business Investment Act.

Section 3 would authorize an additional \$30 million annually over the 2001-2003 period for certain activities of the Small Business Development Centers (SBDCs). It also would authorize appropriations for women's enterprise development programs, procurement programs for very small businesses, and SBA's HUBZones program, which provides federal

contracting set-asides and preferences to qualified small businesses located in designated, economically distressed, urban and rural communities.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of H.R. 3843 is shown in Table 1. Additional spending would total \$3.5 billion over the 2001-2005 period, subject to appropriation of the amounts estimated to be authorized by H.R. 3843. The costs of this legislation fall within budget functions 370 (commerce and housing credit) and 450 (community and regional development).

TABLE 1. ESTIMATED BUDGETARY EFFECTS OF THE SMALL BUSINESS REAUTHORIZATION ACT OF 2000

	By Fiscal Year, in Millions of Dollars					
	2000	2001	2002	2003	2004	2005
SPENDING SUBJECT TO APPROPRIATION						
Spending Under Current Law						
Budget Authority ^a	858	0	0	0	0	0
Estimated Outlays	865	298	70	24	5	0
Proposed Changes						
Specified Authorization Level	0	125	149	172	30	30
Estimated Authorization Level	<u>0</u>	<u>961</u>	<u>1,018</u>	<u>1,053</u>	<u>30</u>	<u>30</u>
Total Authorizations	0	1,086	1,167	1,225	30	30
Estimated Outlays	0	712	1,038	1,229	413	89
Spending Under The Act						
Estimated Authorization Level ^a	858	1,086	1,167	1,225	30	30
Estimated Outlays	865	1,010	1,108	1,253	418	89

a. The 2000 level is the amount appropriated for that year.

BASIS OF ESTIMATE

For the purpose of this estimate, CBO assumes that the act will be enacted by the end of fiscal year 2000 and that the necessary amounts will be appropriated by the start of each

fiscal year. Outlay estimates are based on historical spending rates for existing programs. Programs that would be authorized by this legislation provide business loans and loan guarantees, surety bonds guarantees, and other noncredit assistance to businesses and individuals.

The act would permit the SBA to (1) guarantee business loans totaling \$23.2 billion in 2001, \$26.3 billion in 2002, and \$27.8 billion in 2003, (2) make direct loans totaling \$60 million in 2001, \$80 million in 2002, and \$100 million in 2003, and (3) make an indefinite amount of disaster loans over the 2001-2003 period. Table 2 shows the loan levels authorized by the act for SBA's business and disaster loans as well as the estimated subsidy costs and administrative expenses for those loans.

TABLE 2. SBA LOAN LEVELS, SUBSIDY COSTS, AND ADMINISTRATIVE COSTS

	By Fiscal Year, in Millions of Dollars				
	2001	2002	2003	2004	2005
Authorized Loan Levels					
Guaranteed and Direct Business Loans	23,260	26,330	27,290	0	0
Disaster Loans	871	904	967	0	0
Loan Subsidy Costs					
Guaranteed and Direct Business Loans					
Estimated Authorization Level	277	314	326	0	0
Estimated Outlays	177	284	308	104	7
Disaster Loans					
Estimated Authorization Level	174	181	193	0	0
Estimated Outlays	87	160	186	95	19
Loan Administration Costs					
Guaranteed and Direct Business Loans					
Specified and Estimated Authorization Level	134	138	142	0	0
Estimated Outlays	124	138	142	0	0
Disaster Loans					
Estimated Authorization Level	141	145	150	0	0
Estimated Outlays	141	145	150	0	0

The Federal Credit Reform Act of 1990 requires appropriation of the subsidy costs and administrative costs for operating credit programs. The subsidy cost is the estimated long-term cost to the government of a direct loan or loan guarantee, calculated on a net present value basis, excluding administrative costs. The act does not provide an explicit authorization for either the subsidy or administrative costs for the guaranteed, direct, or disaster loans. So CBO has estimated these costs based on the loan levels authorized in the act.

Business Loans

Based on information from the SBA and on historical data for these loan programs, CBO estimates that the subsidy costs of guarantees for the authorized levels of business loans would be \$272 million in 2001, \$307 million in 2002, and \$317 million in 2003. We estimate that the subsidy costs of the direct business loans would be \$5 million in 2001, \$7 million in 2002, and \$9 million in 2003. Based on recent administrative costs for the SBA's loan programs, CBO estimates that the administrative costs for the business loan programs would be about \$134 million in fiscal year 2001, \$138 million in fiscal year 2002, and \$142 million in fiscal year 2003.

The estimated subsidy rates for business loans and guarantees range from zero to about 9 percent, but most are at 2 percent or less and the average for this estimate is 1.2 percent, based on the past performance of these loans.

Disaster Loans

Assuming that demand for SBA's disaster loans over the next three years will be at the average historical rate for the past six years, CBO projects that the SBA would make disaster loans totaling about \$871 million in 2001, \$904 million in 2002, and \$967 million in 2003. CBO estimates that the subsidy costs of these loans would be \$174 million in 2001, \$181 million in 2002, and \$193 million in 2003 and that the administrative costs for the disaster loan program would be about \$141 million in 2001, \$145 million in 2002, and \$150 million in 2003. The estimated subsidy rate for disaster loans is about 20 percent.

Surety Bonds

The act would authorize the SBA to guarantee surety bonds for small businesses totaling up to \$4 billion in 2001, \$5 billion in 2002, and \$6 billion in 2003. Such guarantees are not considered loan guarantees under the definition in the Federal Credit Reform Act of 1990,

and annual appropriations are required only to cover the net cash losses to the program within a given year. Based on information from the SBA, CBO estimates that the authorized level of activity would not result in additional outlays over the 2001-2003 period.

Other Programs

The act would provide specific authorizations of appropriations for the HUBZone program, SBDCs, SCORE, and various women's business programs. CBO estimates that funding these programs as authorized would cost \$537 million over the next five years.

In addition, the act would authorize such sums as may be necessary to cover the SBA's costs of carrying out the Small Business Act and the Small Business Investment Company Act. CBO estimates that the general administrative costs to carry out these acts would be \$259 million in fiscal year 2001, \$267 million in fiscal year 2002, and \$271 million in fiscal year 2003, assuming appropriation of the necessary amounts. (The estimate of general administrative costs excludes the program-specific administrative expenses for business and disaster loans.)

PAY-AS-YOU-GO CONSIDERATIONS: None.

ESTIMATED IMPACT ON STATE, LOCAL, AND TRIBAL GOVERNMENTS

H.R. 3843 contains no intergovernmental mandates as defined in UMRA, and would not impose any costs on state, local, or tribal governments. The act would authorize appropriations for the SBA's loan programs for fiscal years 2001 through 2003, some of which may benefit state, local, and tribal governments. For example, the Small Business Development Center (SBDC) program provides funds to state and local governments, public and private institutions of higher education, and state-chartered development corporations to establish and operate small business development centers. Additional programs for which appropriations would be authorized under this act may benefit state, local, and tribal governments that qualify for the program's grant's or loans. Any costs associated with providing matching funds to participate in certain SBA programs are voluntary and are likely to be minimal.

ESTIMATED IMPACT ON THE PRIVATE SECTOR

This act contains no new private-sector mandates as defined in UMRA.

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